



MAKE-BELIEVE "TAX REFORM" ECONOMICS

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During the summer of 1975, Treasury Secretary William Simon was in full swing hawking the Ford Administration's proposal to cut taxes for utility companies by \$600,000,000 a year. Simon was also saying that he favors "a recommendation to reduce the corporate income tax and lower taxes on investment income. . . ."

Simon has become an earnest partner in the Administration's publicity blitz to convince middle- and low-income U.S. taxpayers of a make-believe world of "tax reform" economics. He, Alan Greenspan (chairman of the President's Council of Economic Advisers), and William Seidman (White House economic policy coordinator) are President's Ford's big guns aimed at getting the House Ways and Means Committee to recommend more corporation tax breaks.

The Administration's tax proposals are bolstered by Simon's well-known economic philosophy. Simon frequently argues that the answer to almost all U.S. economic problems is a "free market . . . letting the market work itself out." If he could, Simon would eliminate the progressive income tax on wealth and the tax on corporate income.

Simon's view is that free market forces, the absence of any government involvement in the affairs of business—particularly the absence of taxes—would produce the greatest good for the greatest number. The idea is that, in the competitive marketplace, without the interference of government, each one of thousands of producers tries to make the most profit possible; each is under pressure to find cheaper methods of production and to sell at the lowest possible price; and, happily for consumers, then, the profit motive ensures the best arrangement for all. In this best-of-all-possible worlds, labor, materials, and investment capital are distributed in the most efficient way.

The economic realities in the U.S., however, are far different from Simon's make-believe world of perfect competition. The country's wealth is highly concentrated among the owners of a very few giant corporations. Less than two percent of the population owns over 80 percent of all corporate stocks and virtually all state and local government bonds. Of 32,000 U.S. industrial corporations, fewer than 500 control 75 percent of all manufacturing assets. In 1967, the trust departments of 50 commercial banks controlled about 60 percent of all investment assets.

U.S. economic concentration is increasing, not lessening. From 1950 to 1959, there were an average of 540 corporate mergers a year. From 1960 to 1967, the average was 1,100 a year. In 1968, there were 2,655 mergers. Albeit there are still hundreds of thousands of small industrial companies, a few hundred huge corporations now do most of the producing and are the principal brokers of American economic power.

The U.S. economy is highly controlled, not only by the government but also by the relatively few owners of large industrial corporations. Two-thirds of the manufacturing industries that have nationwide markets are not subject to the whims of Simon's so-called "free-market" conditions of competition. It is *they*, not the market, who determine the prices their products will sell for. For broad stretches of the American economy, prices do not respond primarily to changes in demand. Prices in the large, centralized industries are held more or less rigid despite diminished demand—instead, production and jobs are affected.

In the real world of today's America, despite a reduction in consumer demand—production is at 75 percent of industrial capacity and unemployment is at a record nine percent—prices are *rising*.

The Administration argues for “tax reform”—less taxation of corporate and individual concentrations of wealth—in order to encourage investment. The predictable result will be larger and larger accumulations of economic resources, with fewer and fewer people owning the nation’s wealth.

It is this economic concentration that holds back the economy’s potential output, not a lack of capital investment *per se*. Concentration of wealth increases unemployment, thus decreasing consumer spending and feeding recession and a capital requirements shortage. As economic resources become more concentrated, small to moderate-sized businesses are driven to the wall and are forced to cut back production and reduce employment. They cannot compete with the advertising budgets and the rate and price monopolies of the giants. The outsized national and multinational corporations—monopolizing their markets—keep prices high by restricting production and supply, and thereby further reduce available jobs, consumer spending, and capital.

The long-term effects of economic concentration—aided and abetted by corporate and individual tax avoidance—are unused industrial capacity, unemployment, shortages, high prices, high profits, and inflation.

The kind of “tax reform” that gives incentives for capital investment does not help. The motivation for giving these tax boons to the owners of large-scale capital is not to make American business more competitive is a make-believe “free-market” economy, but to *avoid taxes* on profits. The corporate share of the Federal tax burden has declined during the past 14 years, from 23 percent in 1960 to 16 percent in 1974. The statutory rate for corporations is 48 percent, but, with existing loopholes, they actually pay between 20 and 35 percent of their profits.

The Ford Administration’s proposals to give more tax breaks on corporate and individual wealth are unhealthy for the economy and unjust for middle- and low-income taxpayers.